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Parallel Trade Studies and Articles

Parallel trade is a legal practice in the European Union (EU) and involves a supplier who buys drugs in low-cost member states, often in Southern Europe, and sells them at a discount in countries where prices for that product are higher, often in Northern Europe. The essential purpose of this practice is arbitrage between countries with different prices. Studies have demonstrated that the parallel trade practice has had little impact on prescription drug prices. For example, in the U.K., one of the largest importing countries, prices have dropped by less than two percent. In Sweden, the average price fell by just 4 percent.¹ Below is a short description and summary of several studies that have examined the parallel trade practice in Europe.

The Economic Impact of Pharmaceutical Parallel Trade: A Stakeholder Analysis

London School of Economics, Panos Kanavos, PhD
November 2003

A study from the London School of Economics and Political Science, released in November 2003, challenged the accepted notion that pharmaceutical parallel trade benefits healthcare stakeholders and patients by lowering costs. The study analyzed the impact of cross-border brand-name prescription drug trade within the European Union and found that although the number of parallel imports continues to rise, healthcare stakeholders are realizing little of the net savings. The study demonstrates that profits from parallel trade accrue mostly to the benefit of the middlemen, third-party companies that buy and re-sell medicines between EU countries.

	Norway	Germany	Sweden	Denmark	UK	Netherlands
Savings to Insurance Organizations	.7%	.8%	2%	.6%	.3%	2%
Parallel Trader Markup	16%	46%	12%	38%	54%	51%

According to the study's author, Dr. Panos Kanavos, "The study clearly makes the case for urgent further debate before any additional legislation in support of parallel trade is passed, at EU or country level. There is no evidence of sustainable dynamic price competition in destination countries, with no corresponding indirect savings. The supposed benefits of this system need to be reviewed."²

¹ "E.U. Parallel Drug Trade Cited in U.S. Reimportation Debate," *Drug Industry Daily*, November 12, 2003.

² "New LSE Study Contradicts Accepted Benefits of EU Pharmaceutical Parallel Trade," Press Release, The London School of Economics and Political Science, November 2003.

Parallel Trade in Pharmaceuticals

Jacob Arfwedson/CNE Health

July 2003

This paper concludes that the net economic effects of parallel trade "cannot be established empirically" and that "there may be significant long run harms to innovation if parallel trade grows indefinitely."

Parallel Imports and Reimportation in the Pharmaceutical Market: Misguided Health Policy

German Association of Research-based Pharmaceutical Companies (VFA)

September 2002

This paper, released in September 2002, examined whether and to what extent reimported drugs are cheaper than drugs not reimported. According to the study, the targeted support of reimportation through legal requirements was conditioned upon the imported medicine being at least 10% cheaper than the original. Consequently, the prices set by the reimporters were typically this precise difference. Over time, the differences in price have markedly shrunk and according to the study's findings, "In as much as the changes in prices over the last three years can be analyzed, the increases in price by the importers lie without exception above the increases in price by the manufacturer."

		Pharmacy Selling Price, Jan. 2002		
Product	Indication	Original	Reimport	Difference
		Euro	Euro	%
Klacid	Antibiotic	29,61	27,82	6%
Glucobay	Antidiabetic	45,19	42,90	5.1%
Norvasc	Calcium Antagonist	120,48	119,55	.8%
Twinrix	Hepatitis Vaccine	66,26	62,93	5%
Prograf	Immune Suppressant	489,01	479,23	2%
Zyprexa	Psycholeptics	76,75	74,43	3%
Iscover	Platet Aggregagtion Inhibitors	240,11	236,45	1.5%
Combivir	Antivirals	740,52	715,56	3.4%

Source: NDCHealth, VFA

Institute for Health Economics

Parallel Trade in Drugs in Sweden – An Economic Analysis

2001

At the request of the National Corporation of Swedish Pharmacies, the Association of Parallel Importers, the Federation of County Councils, and the Pharmaceutical Industries Association, the Institute for Health Economic's (IHE) analyzed parallel trade in Sweden. According to the IHE, parallel imports entail higher costs for pharmacies (as compared to drugs not imported), mainly in connection with

storage, remaining-stock records, and extra information to patients. With some drugs, the additional costs to pharmacies actually exceeds the savings on the cheaper imported drugs. In 1999, the ten best-selling parallel-imported drugs accounted for 74 percent of the total sales value of all parallel-imported medicines in Sweden. According to the study, "...most parallel-imported drugs engender relatively modest sales and cannot, generally speaking, be expected to yield savings, although their price is set at least 10 percent below that of the originally imported drug."

Parallel Imports of Pharmaceutical Products in the European Union

Mattias Ganslandt and Keith Maskus

March 2001

The aim of this paper was to study the effects of parallel trade in the pharmaceutical industry. The analysis focuses on explaining the volume and costs of parallel imports, the entry of parallel importers, the strategic responses by pharmaceutical firms and the effects of these activities on prices. The empirical analysis conducted by the authors confirmed that prices of good subject to import competition, including parallel-traded products themselves, fell approximately 4 percent in the import market relative to the prices of products not subject to parallel trade. The data did not support the hypothesis that prices for products subject to parallel trade converge between the importing and exporting countries. The results in this study, which looked specifically at Sweden, suggest that parallel-importing firms exploit price differences between these markets of approximately 21 percent of the original manufacturer's price in Sweden.

The Economics of Parallel Trade

Patricia M. Danzon

PharmacoEconomics 1998

In this study, Danzon finds that parallel trade in pharmaceuticals does not yield the normal efficiency gains from trade because other countries achieve low pharmaceutical prices by aggressive regulation, not through superior efficiency. In contrast, parallel trade reduces economic welfare by undermining price differentials between markets. Moreover, the study found, much of the margin between prices in the importing and exporting countries "accrues to intermediaries, not as lower prices to consumers, at least in the short run."

Danzon finds that differential pricing between countries for pharmaceuticals leads to more appropriate use of drugs and permits a higher level of R&D than would occur with uniform pricing. Parallel trade erodes price differences across countries and therefore undermines the most efficient pricing mechanism for paying for R&D. According to Danzon, uniform pricing reduces revenues to manufacturers, "hence some medicines may not be developed that consumers would have been willing to pay for, had differential pricing been viable." Rather, differential pricing

would support a higher rate of development of innovative medicines for consumers in the long run and provide incentives for investments in the EU.

Commission to Investigate Parallel Importation of Drugs to Israel Final Report

Israeli Ministry of Health Director General Dr. Yehoshua Shemer
December 1997

In December 1997, an Israeli blue-ribbon panel chaired by Ministry of Health Director General Dr. Yehoshua Shemer issued a critical report of planned importation legislation. The Government of Israel (GOI) withheld the report from the Israeli legislature at the time that the importation legislation was adopted in early 1999. The GOI successfully suppressed its release until this summer when Israel's Supreme Court ordered the GOI to disclose the report. The report concluded that "parallel importation of drugs to Israel incorporates potential risks to public health" and will prove little savings to consumers.

Survey of Parallel Trade

N/E/R/A
1997

A survey of parallel trade was conducted for Interpharma by the National Economic Research Associates (n/e/r/a) and released in May 1997. The aim of the survey was to estimate the effect of parallel imports of medicines on pharmaceutical companies operating in Europe. The study time frame ran from 1990 to 1997 and examined five importing countries, including: Denmark, UK, Netherlands, Ireland and Germany.

The survey found that the average mark-up taken by parallel importers on the products it examined was 68 percent. The survey also noted that five of the companies that participated in the survey had examples where the quality of the parallel imported product had been compromised in some way. Three companies had examples of counterfeit products reaching pharmacists through parallel trade.